

MINUTE ITEM

5. REQUEST FOR APPROVAL OF CRUDE OIL SALES CONTRACT, LEASE P.R.C. 429.1, HONOLULU OIL CORPORATION, RINCON FIELD, VENTURA COUNTY - W.7. 3623.

Upon the recommendation of the Executive Officer, at the request of the applicant, and with the concurrence of the office of the Attorney General, action was deferred on Calendar Item 4 attached, to allow for further consideration of legal questions involved.

Attachment

Calendar Item 4 (2 pages)

CALENDAR ITEM

4.

REQUEST FOR APPROVAL OF CRUDE OIL SALES CONTRACT, LEASE P.R.C. 429.1, HONOLULU OIL CORPORATION, RINCON FIELD, VENTURA COUNTY - W.O. 3623.

State Oil and Gas Lease Extension and Renewal P.R.C. 429.1 was issued April 21, 1951, to the Honolulu Oil Corporation for ten years with options for extension.

Section 15 of the lease states in part: "In the event the State should elect to take royalty in money instead of in kind, the Lessee shall not sell or otherwise dispose of the products produced hereunder except in accordance with such sales contracts or other methods first approved in writing by the State." Section 2 of the lease states in part: "When paid in money, the royalty shall be calculated upon the reasonable market price of the oil at the well as determined by the State, which price shall not be less than the highest price at which a major oil company then buying oil of like gravity and quality in substantial quantities at the Rincon Field in Ventura County, California, is offering for oil of like gravity and quality at the well,..."

In accordance with Section 15 of the lease, Honolulu Oil Corporation, the lessee, has submitted for approval a copy of a crude oil sales contract dated and effective June 4, 1960, between Honolulu Oil Corporation and Standard Oil Company of California, Western Operations, Inc., for the sale of all oil produced from the lease. The contract is to remain in effect until terminated by either party by giving not less than six months' notice of termination, or by the seller on one day's notice given within ten days after notice that prices lower than current scheduled prices are offered.

The scheduled prices offered by the purchaser are lower than the highest price paid by a major oil company buying substantial quantities of oil of like gravity and quality in the Rincon Field. The lessee has represented that companies posting higher prices have flatly refused to purchase its production; therefore, rather than shut in production, this contract was entered into. Royalty payments paid to the State are currently computed in accordance with the requirements of Section 2 of the lease. It is the opinion of the office of the Attorney General that this is proper under the terms of the lease.

Other terms and conditions of the contract relating to the manner of delivery and the procedure for testing oil samples are in conformance with the lease terms and general practice in industry.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO APPROVE THE CRUDE OIL SALES CONTRACT BETWEEN HONOLULU OIL CORPORATION AND STANDARD OIL COMPANY OF CALIFORNIA, WESTERN OPERATIONS, INC., ENTERED INTO JUNE 4, 1960, AND EFFECTIVE UNTIL TERMINATED BY EITHER PARTY, SUBJECT TO THE CONDITION THAT SUCH APPROVAL SHALL NOT BE CONSTRUED AS CHANGING THE ROYALTY PAYMENT PROVISIONS OF LEASE P.R.C. 429.1; I.E., THE LESSEE SHALL BE REQUIRED TO PAY THE STATE A ROYALTY BASED UPON THE HIGHEST PRICE FOR OIL OF

CALENDAR ITEM 4. (CONTD.)

LIKE GRAVITY AND QUALITY POSTED BY A MAJOR OIL COMPANY THEN BUYING SUCH OIL IN SUBSTANTIAL QUANTITIES AT THE RINCON FIELD; AND SUBJECT TO THE FURTHER CONDITION THAT SUCH APPROVAL DOES NOT MODIFY OR EFFECT, IN ANY MANNER, ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL OF THE TERMS AND CONDITIONS OF OIL AND GAS LEASE EXTENSION AND RENEWAL P.R.C. 429.1, AND WITH THE RULES AND REGULATIONS OF THE COMMISSION.